

## ***Forum Series on the Role of Institutions in Promoting Economic Growth***

### **Comments by Lee Benham on Clifford Zinnes and Carlos Espina's *"Institutional Incentives within USAID: How do they Affect Project Outcomes?"***

#### **Forum 5: NIE-Based Toolkits for USAID Applications**

##### **Session 2**

14 February 2003  
Washington, D.C.

#### **Question**

This paper addresses an important issue. How do we measure USAID performance in a cost-effective way? How do we develop measures that are credible, that provide Congress with information about the effectiveness of the USAID programs, and that assist USAID in improving performance?

#### **Evaluation**

There are clear benefits to gathering USAID project data systematically and analyzing it statistically. Obtaining information on variation in the outcomes of projects and exploring the sources of that variation is important. Questions which could be addressed include: Does the outcome differ if a project is undertaken in a last-minute rush because of budget-cycle constraints? Do outcomes vary by type of subcontractor? Do the type of contracting and the payment mechanism matter in project performance? Does it make a difference to the outcome whether the contractor is given a cost-plus or fixed-fee contract?

Some of these constraints are imposed by Congress, some by internal USAID procedures, and some by conditions in the field. This analysis would help show the



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expected consequences of these various constraints. This project could be worthwhile just in terms of conveying to Congress the consequences of Congressional constraints. Given the potential payoffs there and elsewhere and the low costs, some analysis of this type should certainly be undertaken.

New Institutional Economics emphasizes the role of property rights, incentives, and strategic behavior for any organization. There is much merit in providing an overall framework.

My concerns about this proposal are these: the variables of interest are often imperfectly measured, there are severe problems of selection and endogeneity, the time lags to be examined are often great, and the environment is very noisy. Therefore only big and robust relationships will be credibly measured. However, many of the relationships to be analyzed in this project are complex and subtle ones, in which the expectations of decision-makers play a large role. Many effects are likely to be too small to show up credibly. Establishing linkages for the long-term effects of projects is particularly difficult. Even in the area of finance (where the data are excellent and where there are well-defined events), event studies can usually measure only short-term effects, unless the impact is very large. And where the impact is very large, the effects usually show up in simple comparisons, as well as in more sophisticated econometrics results. In these cases, credible results are robust across statistical techniques.

The ability to test some of the hypotheses proposed for this project should not be overestimated. I believe the proposed study is nevertheless worth doing in modified form. Discovering which effects are big and robust and which effects are not is critical to a serious discussion of alternatives. Even for robust results, the proposed approach will



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not resolve all issues of causality. And if few of the hypothesized relationships are supported by statistical analysis, that is valuable information. The optimum amount of systematic statistical analysis of these data is not zero.

### **Recommendations:**

1. The authors should develop a set of specific hypotheses to be tested. They should list the specific variables to be collected to test those hypotheses, the specific measurement of these variables, and the proposed sample sizes. They should then estimate how large the effects will have to be for the results to be statistically significant and quantitatively important.
2. With the data currently available, what hypotheses can be tested now? The proposed data collection process will impose costs on the field offices and others. Using already existing data, and perhaps some simulations, the authors could give an example now of the kind of specific insights which could be forthcoming with more extensive data.
3. One proposal in the paper is:

“USAID may consider funding a project to establish a one-page form, to be completed by the COTR upon project start-up with the NIE information described in Section 3. The project should then “beta-test” the form for a limited number of (future) USAID projects...”

It would be useful to have a specific illustration now of what questions would be asked, who would answer them, and how the results would be analyzed. The basic problem is how to translate the concepts into a short list of specific



questions. If this can be done effectively, this would be a valuable low-cost technology.

4. The authors should describe the most successful application of the proposed methodology in other contexts.



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